Press Release

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TRIS Rating Assigns Company Rating of “GRAND” at “BB+” with “Stable” Outlook

TRIS Rating has assigned the company rating of Grande Asset Hotel and Property PLC (GRAND) at “BB+” with “stable” outlook. The rating reflects GRAND’s experience in property development, its relationships with successful hotel brands, and the good locations of its hotel properties. The rating is, however, constrained by a reliance on income from a few properties, high administrative expenses, and an aggressive investment plan. The rating also takes into consideration the nature of the hotel industry, which is characterized by intense competition and a high sensitivity to uncontrollable external factors, and the cyclicality of the property market.

The “stable” outlook is based on the expectation that the operating performance of the hotel segment will remain satisfactory. In addition, the company is expected to complete the ongoing condominium project on schedule, and transfer the finished units to customers as planned. A rating upgrade is unlikely in the near term based on the sizable investment plans. In contrast, the downside risk scenario will materialize if GRAND’s financial performance deteriorates substantially or financial leverage climbs significantly above the projected level.

GRAND was established in 1988. Property Perfect PLC (PF) and its affiliates are currently GRAND’s major shareholders, holding a 42% stake in total. GRAND has two lines of business: hotels and residential property development. At present, GRAND’s hotel portfolio consists of 655 rooms in three hotels: The Westin Grande Sukhumvit, Sheraton Hua Hin Resort and Spa, and Sheraton Hua Hin Pranburi Villas. In addition, the company is now constructing a new hotel, Hyatt Regency Sukhumvit. The new hotel is expected to be complete and operational in late 2017. The company expanded to residential property development in 2007, but has completed only three condominium projects: The Trendy Condominium, Hua Hin Blue Lagoon, and The Hyde Sukhumvit 13. The company is now developing a new condominium project, The Hyde Sukhumvit 11. The new condominium is expected to be complete and ready to transfer to customers in the fourth quarter of 2017.

The company’s hotel properties are located in good locations, such as the central business district (CBD) of Bangkok and popular tourist destinations. GRAND’s strategy is to build the hotels and appoint international hotel chains to manage and operate the properties. GRAND’s hotel properties have acceptable financial results and smooth operations as international hotel chains provide strong brand names, proven hotel management systems, and strong marketing channels. In exchange, GRAND has to pay management fees to the international hotel chains. The operating performances of the hotels hinge on the number of tourist arrivals, which is highly sensitive to uncontrollable external factors. For example, the company’s revenue per available room (RevPar) declined from Bt2,882 per night in 2013 to Bt2,276 per night in 2014 due to political unrests. RevPar recovered to Bt3,139 per night in 2015 and to Bt3,204 per night in 2016 because foreign tourist arrivals increased after the political protests ceased.

During the past five years, GRAND’s revenue from the hotel segment accounted for more than 75% of total revenue. Total revenue gradually increased from Bt957 million in 2012 to Bt1,417 million in 2016. However, some of the intervening years were exceptional. For example, the company posted Bt4,886 million in revenue in 2014. Revenue soared because it completed and transferred a condominium project that year, offsetting a 17% year-on-year (y-o-y) decline in revenue in the hotel segment due to political turmoil. TRIS Rating estimates that GRAND’s total revenue will gradually increase to around Bt3,000 million over the next three years. The rise in revenue is underpinned by plans to open a new hotel in late 2017. In addition, one condominium project will be complete and ready to transfer over the next few years.

GRAND carries certain fixed amount of administration expenses. As a result, profitability is weak in the year when it does not recognize sales from residential property projects. However, the operating profit margin, defined as operating income before depreciation and amortization as a percentage of total revenue, was high at approximately 23% in 2014 and 2016 due to the recognition of residential property sales and improvements in the operating performance of the hotel segment. The profit margin is forecast to stay around 20% during 2017-2019.

(Continue on page 2)

In 2016, GRAND's total debt was Bt3,813 million, compared with Bt1,911 million in 2014. The level of debt rose due to the investments in the Hyatt Regency Sukhumvit hotel and The Hyde Sukhumvit 11 condominium. The debt to capitalization ratio rose from 39.3% in 2014 to 57.1% in 2016. During 2017-2019, GRAND plans investments totaling Bt5,100 million, mainly for two projects: a new condominium project in prime area of Bangkok, and a mixed-use project, located in Rayong province, consisting of a hotel, a condominium, and villas. As a result, the debt to capitalization ratio is expected to gradually rise to 65% in 2019.

The company's liquidity is soft. The FFO to total debt ratio was 4.6% in 2016. The FFO to total debt ratio is expected to improve to around 10% during 2017-2019. At the end of December 2016, sources of funds comprised Bt474 million in cash on hand and Bt1,138 million in credit facilities. This should be sufficient to cover the uses of funds. During the next 12 months, GRAND has scheduled principal repayments of Bt15 million and repayments of outstanding short-term obligations of Bt974 million.

Grande Asset Hotel and Property PLC (GRAND)

Company Rating:	BB+
Rating Outlook:	Stable

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